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PUBLIC SERVICE
COMMISSION

October 27, 2005

Montana Public Service Commission
1701 Prospect Avenue
Helena, MT 59620

Subject: Letter of Transmittal of Utility Solutions, LLC Application to Implement Initial Rates for Water Service in its Gallatin County, Montana Service Area

Utility Solutions hereby transmits its application for implementation of initial rates and charges for water service in its Gallatin County, Montana service area. The total revenue requirement, as explained and supported in the accompanying testimony and exhibits, is \$163,978. This application is made under the Montana Code Annotated, Title 69, and the Commission's rules and regulations as contained in the Administrative Rules of Montana.

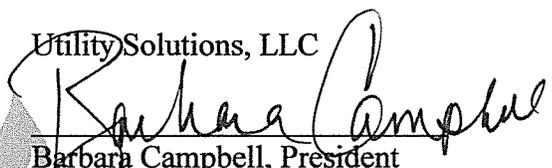
The following documents are herewith provided:

- a) 10 copies of the application for authority to implement initial rates, including applicable schedules from the minimum rate case filing standards for electric, gas, and private water utilities promulgated by the Commission.
- b) 10 copies of the prefiled direct testimony and exhibits of Ronald Woods

In addition to filing this application with the Commission, Utility Solutions has also provided three copies to the Montana Consumer Council's office. The Company has designated Ronald Woods, 355 Montana Avenue, Missoula, Montana 59802, telephone (406) 543-7806, as the person responsible for answering questions or for referring inquiries to the appropriate person.

Pursuant to the Commission's rules the Company has also requested interim rate relief in the amount of \$163,978. The Company requests that such interim rate relief be provided within thirty days of the filing of this Application.

Utility Solutions, LLC


Barbara Campbell, President
Double-Tree, Inc., Manager

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In the Matter of the Application of)
Utility Solutions, LLC To Implement)
Initial Rates and Charges in its Elk Grove }
Subdivision, Gallatin County, Montana)
Service Area.)

Docket No. D2005.11.163

APPLICATION

Comes Now, Utility Solutions, LLC, applicant in the above entitled proceeding (herein after "Applicant" or "Utility Solutions"), and respectfully shows the Commission as follows:

I

Applicant is a Montana Limited Liability Corporation duly authorized and doing business in the State of Montana as a public utility.

II

Applicant's full name and business address is Utility Solutions, LLC, PO Box 10098, Bozeman, MT 59719.

III

The following described rate schedules for water service in Applicant's Elk Grove service area, located in Gallatin County, Montana, copies of which are attached as Appendix A, are the initial rates being filed with the Commission:

Utility Solutions

Schedule M – Metered Water Rates

Schedule F – Monthly Flat Water Rates

Schedule R – Special Rules of Service

IV

The proposed rates set forth in Appendix A are reasonable and just as they permit the Applicant to recover, in the rates it is permitted to charge its customers, the cost of providing water service to those customers.

V

In support of this application and in accordance with the Commission's administrative rules, the Applicant files its prefiled testimony and exhibits.

VI

Utility Solutions requests interim approval of its Rate Schedule F under the provisions of the Commission's administrative rules.

VII

In support of this application Utility Solutions files concurrently herewith the prefiled testimony of Mr. Ronald Woods.

VIII

This application is submitted in accordance with the provisions of Title 69, Chapter 2 and pursuant to those provisions the Applicant is entitled to the relief sought herein.

WHEREFORE, Applicant respectfully requests the following relief:

1. Interim approval of its Rate Schedule F.
2. Final approval of its Rate Schedule M, Rate Schedule F and Special Rules of Service.
3. Such other and further relief as the Commission deems equitable and just.

Dated this 21 day of Oct, 2005.

Utility Solutions, LLC
By Barbara Campbell
Barbara Campbell, President
Double-Tree, Inc., Manager

Public Service Commission of Montana

Utility Solutions

Sheet No. 1

METERED WATER SERVICE

Schedule M

Availability: For the Elk Grove Service Area Gallatin County, Montana for all purposes except resale.

Rate:

Applicable to all residential and small commercial customers.

Customer Charge \$14.68/per month

Quantity Charge

For all usage per 1000 gallons or fraction there of \$1.644

The Customer Charge is applicable to all metered water service. It is a readiness to serve charge which is added to the charge computed at the Quantity Rates for water used during the month.

Issued: 10/27/05
(Date)

By: Barbara Campbell
(Signature of Officer of Utility)

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PUBLIC SERVICE COMMISSION

(Secretary)

Public Service Commission of Montana

Utility Solutions

Sheet No. 2

FLAT RATE WATER SERVICE

Schedule F

Availability: For the Elk Grove Service Area Gallatin County, Montana for all purposes except resale.

Rate:

Applicable to all residential and small commercial customers not provided service by meter.

Residential Domestic	\$34.97/per month
Daycare Provider Domestic	\$44.09/per month
Commercial Domestic	\$86.65/per month
Irrigation Water ¹	\$1.517/per hundred sq. ft.

¹Irrigation bills will be issued annually on June 1. Customers may pay the charge in four equal installments during the months of June through September or a single payment during the month of issuance.

Issued: 10/27/05
(Date)

By: Barbara Campbell
(Signature of Officer of Utility)

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PUBLIC SERVICE COMMISSION

(Secretary)

Public Service Commission of Montana

Utility Solutions

Sheet No. 3

WATER SERVICE

Special Rules of Service

Schedule R

Consumer Deposits

Any new customer or customer that has been previously been disconnected for non-payment will be charged a deposit of approximately twice the average monthly billing. This amount will be refunded when the customer has paid the bill on time for 12 months or upon termination of service.

Unauthorized use of service

Unauthorized use of service is defined as any deliberate interference such as tampering with the Company's meter, connections, equipment, seals, procedure or records that result in a loss of revenue to the company. Unauthorized service is also defined as reconnection of service that has been terminated, without the company's consent.

Cost incurred to repair damage to company owned property installed on the customer's premise will be billed to the customer.

Charges for unauthorized use of service will be:

- a. time, material and transportation costs used in investigation or surveillance.
- b. estimated charge for water
- c. on-premise time to correct situation.
- d. costs incurred to repair company owned property if any damage.

Reconnection of Service

Water service disconnected for unauthorized use of service shall not be reconnected until the customer furnishes satisfactory evidence of compliance with the company's rules and conditions of service and paid all outstanding service charges.

Late payment fee

An account having a balance left unpaid 30 days after the bill date is subject to a 1.0% late payment charge.

Issued: 10/27/05
(Date)

By: *Richard Campbell*
(Signature of Officer of Utility)

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PUBLIC SERVICE COMMISSION

(Secretary)

**BEFORE THE
MONTANA PUBLIC SERVICE COMMISSION**

**PREFILED DIRECT TESTIMONY
RONALD R. WOODS**

Q. Please state your name, business address and affiliation with Utility Solutions, LLC water utility.

A. My name is Ronald R. Woods. My business address is 355 Montana Avenue, Missoula, Montana. I am a consultant retained by Utility Solutions to provide regulatory consulting services to its water utility in connection with the filing of initial water rates with the Montana Public Service Commission.

Q. Please give your educational background and job experience.

A. I attended Montana State University and Cochise College, Douglas Arizona, majoring in General Business. In 1974 I started my employment with the Montana Public Service Commission (MPSC or Commission) as an auditor in the Transportation Division. From January, 1980 to March, 1998 I was a rate analyst in the Commission's Utility Division. During my tenure as an analyst in the Utility Division I participated in the review and analysis of hundreds of public utility rate filings received from water utilities, sewer utilities, gas utilities and telecommunication companies. As an analyst I advised the Commission on the financial merits of cases, general and specific operating rules, and public policy. During my 23 years with the Commission I attended numerous continuing education classes and seminars relating to the regulation of public utilities.

Since leaving the Commission, I have participated in the filing of rate cases before the Montana Public Commission on behalf of Cenex Harvest States, Fairmont Hot Springs Resort, Miller Oil Company, and Utility Partners. Additionally, I have provided regulatory consulting services to the Montana Public Service Commission, Mountain Water Company, Circle H Ranch and North Ridge Water Company.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present financial exhibits and data supporting Utility

Solutions' application for implementation of initial rates.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring a number of tables and statements that comply with the Commission's rules, entitled "Data Furnished in Compliance with PSC Minimum Rate Case Filing Requirements". However, I have not prepared all of the tables and statements required under the Commission's minimum filing requirements. I did not prepare all of the required schedules because the information was either not available or did not pertain to the filing of an initial rate application. Also, I have prepared and will sponsor Exhibit No. ___ (RRW-1) as well as work papers in connection with my testimony.

Q. Please identify the tables and statements that you prepared in compliance with "Data Furnished in Compliance with PSC Minimum Rate Case Filing Requirements".

A. The following is a list of those tables and statements:

38.5.123 Statement C	38.5.156 Statement G	38.5.172
38.5.133 Statement D	38.5.157 Statement H	38.5.176 Statement L
38.5.141 Statement E	38.5.165 Statement I	38.5.178
38.5.146 Statement F		

Q. Were these exhibits prepared by you or under your supervision?

A. Yes.

Q. What is the test period used by Utility Solutions for the application to implement initial rates?

A. The test period is the 12-month period ended December 31, 2004 adjusted for known and measurable changes. The test period financial and operating data, includes a mix of actual and calculated data. The actual data was obtained from the books and records of Utility Solutions the owner of the physical plant and the calculated data was determined as explained later in my testimony or exhibits.

Q. Will you explain why some of the data included in the financial and operating information is calculated?

A. Yes. This is Utility Solutions initial rate filing with the Commission and although it is presently providing service to customers within its service territory it has not achieved full customer subscription. For purposes of determining initial rates it is preferable to assume that utility services are fully subscribed. By making this assumption the need to calculate

and argue various and sundry used and useful percentages that may be applicable in determining rates using the existing customer base is avoided. Because full subscription to utility service is being assumed it is necessary to calculate some financial and operating data.

Q. Before commencing your technical testimony do you have some preliminary comments you would like to make regarding this rate presentation and the operations of Utility Solutions.

A. Yes. Utility Solutions is a combination water and sewer utility that will be providing service on both a monthly fee basis and on a contract basis. Utility Solutions will be providing service in its Elk Grove service area on a monthly fee basis under rates and charges approved and regulated by the Montana Public Service Commission. In its remaining service territory it will be providing service on a contract basis to subscribers of the Four Corners County Water and Sewer District (District). It is my understanding that at present the Commission is not exercising jurisdiction over the contracted District rates. Because the Commission has an interest in insuring that no cross subsidies will be occurring as a result of Utility Solutions providing service on a combination basis (monthly fee and contract), where applicable, the schedules in this filing provide the consolidated financial and operating information. As an aside it should be pointed out that for purposes of providing service within the District boundaries Utility Solutions has substantial plant investment remaining making it impossible to calculate an actual rate of return that may be achieved under the contract.

REVENUE REQUIREMENT

Q. Please describe the first page in Exhibit No. __ (RRW-1)

A. Page 1 is a computation of the test period Rate Base for Utility Solutions water utility. The rate base is calculated by adding utility plant and cash working capital reduced by the reserve for depreciation. Total rate base for Utility Solutions water utility is \$958,041.

Q. Please describe the second page in Exhibit No. __ (RRW-1)

A. Page 2 Column B shows the operating results under proposed rates. Under proposed rates revenues would be \$163,978 producing operating income of \$57,486 equal to a rate of return of 6.00%. Column C shows the reference for each item of data furnished in the rate case filing requirements.

Plant and Accumulated Depreciation

Q. Please describe your computation of utility plant

A. This is shown in filing requirement Section 38.5.123, Statement C. Page 1 of this schedule Columns C and D provides a detailed listing of plant balances, by asset, per books at December 31, 2003 and 2004. Page 2 of this schedule shows the asset value by plant group per the Asset Depreciation Report. The average plant balance as of December 31, 2004 was used for computation of rate base on Page 1 of Exhibit No. __ (RRW-1)

Q. Please describe your computation of accumulated depreciation.

A. This is shown in filing requirement Section 38.5.133, Statement D. Columns D and E show the total Elk Grove water utility balances of accumulated depreciation per books at December 31, 2003 and 2004.

Q. Did you use the average accumulated depreciation balance for December 31, 2004 in your calculation of rate base on Page 1 of Exhibit __ (RRW-1)?

A. Yes.

Q. Please described your calculation of working cash.

A. This calculation is shown in filing requirement Section 38.5.141, Statement E. Working cash is the cash required for operation as a result of billing for services at the end of the month in which the services are provided. Traditionally, utilities which bill after the fact are allowed a cash allowance of 12.5% of cash expenses. To calculate the working cash allowance operation and maintenance expenses and taxes other than income are added together. The total is then multiplied by 12.5% to arrive at total working cash. Working cash is reduced to reflect a credit for use of funds representing the accrual of property taxes prior to payment of the tax. The calculated net working cash allowance is \$7,271.

RATE OF RETURN

Q. Please describe your calculation of rate of return.

A. This is shown in data filing requirement Section 38.5.146, Statement F. This statement reflects actual capital structure and proposed cost of capital for Utility Solutions combined operations as of December 31, 2004.

In instances where a utility's actual capital structure is debt intensive (as is the case with Utility Solutions) the Commission for ratemaking purposes has typically used the actual capital structure.

The cost of debt of 6.00% proposed in this statement is the estimated cost that Utility Solutions will incur. A review of Utility Solutions outstanding debt instruments indicates that all are tied to the "Prime Rate" as described in the Wall Street Journal. A review of those prime rates indicate that 6.00% is a reasonable estimate of that cost.

OPERATION AND MAINTENANCE EXPENSES

- Q. Please describe the statement on operation and maintenance expenses.
- A. Operation and maintenance expenses are shown in the filing requirement Section 38.5.156, Statement G. The total projected expenses for water utility operation during a test year are shown in column B. Projected expenses for provision of water service in the Elk Grove service area are shown in column C. The projected expenses for the Elk Grove service area, shown in column C, are explained in detail in Section 38.5.157.

PRO FORMA ADJUSTMENTS

- Q. Please describe the statement on adjustments to operation and maintenance expenses.
- A. Section 38.5.157, page 1, contains a summary of the pro forma adjustments to test period operation and maintenance expenses. Supporting detail and assumptions underlying the adjustments are detailed on pages 1 and 2 of this section.
- Q. Please explain the pro forma adjustments.
- A. Adjustment No. 1 shows Utility Solutions calculated purchased power expense at present rates assessed by its service provider. Utility Solutions has calculated that, at full build out in its service territory, it will incur total purchased power expense for the water utility of \$16,753. Utility Solutions determined an average monthly purchased power cost of \$4.00 per unit. Utility Solutions then multiplied the average monthly power cost of \$4.00 times 349

equivalent users in the Elk Grove service area, to determine a cost of \$16,753.

Adjustment No. 2 reflects a projected operating cost of \$500 for water utility chemicals. This projection is predicated on an assumed maintenance schedule that will require the use of chemicals to disinfect the system after maintenance.

Adjustment No. 3 reflects projected operating costs of \$3,000 for miscellaneous testing requirements imposed on the water utility. Utility Solutions will be required by the Montana Department of Environmental Quality, the EPA and various other Agencies to run water quality tests on its system.

Adjustment No. 4 shows a projected cost of \$3,500 for material and supplies associated with repair and maintenance of the facilities at full build out. This expense projection is predicated on Utility Solutions review of its maintenance requirements.

Adjustment No. 5 shows Utility Solutions will be entering into a Management Services Agreement with Doubletree Inc. at a total cost of \$312,000 annually. The Management Services Agreement with Doubletree Inc. will cover management and labor related services for Utility Solutions' water and wastewater utilities. Utility Solutions has calculated that \$21,840 of this contract amount should be assigned to its Elk Grove water utility operations an amount equal to 7 percent of the total contract.

Adjustment No. 6 reflects Utility Solutions calculated office expense of \$24,000 for its utility operations once full build out in its service territory is achieved. Utility Solutions has allocated \$4,553 of these expenses to its Elk Grove service area based on an EDU billing ratio for its consolidated utility operation. ($\$24,000 \times .1897 = \$4,553$).

Adjustment No. 7 Utility Solutions has projected that on an annual basis it will incur Legal and Accounting fees totaling \$20,000. Utility Solutions has allocated \$3,794 of these

expenses to its Elk Grove service area based on an EDU billing ratio ($\$20,000 \times .1897 = \$3,794$).

Adjustment No. 8 reflects Utility Solutions' projected insurance expense for its water utility operations at a cost of \$28,000 annually. The Elk Grove service area has been assigned \$4,000 of this cost.

DEPRECIATION AND AMORTIZATION

Q. Please describe the statement on depreciation and amortization expense.

A. Total water utility depreciation and amortization expense for the test year is shown in Section 38.5.165, Statement I. The statement includes pro forma adjustments increasing total expenses by \$128. The adjustment to depreciation expense is the result of reflecting a full year's depreciation on office equipment. The Elk Grove proforma depreciation and amortization expense is shown in column C.

INCOME TAXES

Q. Please describe the statement on income taxes.

A. I have not included Section 38.5.169, Statement J, Income Taxes in this filing. I have not included this schedule because Utility Solutions will have sufficient Net Operating Loss carry forwards available to offset any income tax obligation that it may incur arising out of this filing

COST OF SERVICE

Q. Please describe the calculation of cost of service in Section 38.5.176.

A. Section 38.5.176 is the schedules showing the allocation of the cost of service to the various customer classes. This section consists of 2 pages; the first page contains 2 charts the first chart shows the numbers used to develop the allocation percentages shown in the second. The allocation percentages in chart 2, in conjunction with the allocation percentage developed in column E on page 2, are used to develop the allocated customer class cost of

service and rate derivation.

Page 2, column A, lines 4 through 9, lists the customer class. Columns B through H, lines 4 through 9 show the allocated customer class cost of service for each expense item, with the total class cost of service being shown in column I. The allocation factor for each of the expense categories in columns B through H is shown on line 12. Column J shows the proposed monthly or annual flat rate charge to be assessed.

DERIVATION OF PROPOSED METERED RATES

- Q. Please describe the calculation of proposed metered rates, in Section 38.5.178.
- A. Page 1 of Section 38.5.178 shows the calculation of the Residential/Small Commercial monthly customer charge. This charge is calculated by adding the allocated customer account expense on Schedule 38.5.176 of \$12,347 to 1/3 of the "Other Costs" of \$127,878 and dividing by the annual number of billings in the customer class.

Page 2 shows the development of the usage rate for the Residential/Small Commercial. The usage charge for Residential/Small Commercial is calculated by adding the remaining 2/3 of the "Other Costs" of \$85,256 to the allocated pumping/water treatment expense of \$23,753 and dividing by annual usage.

Work Papers

- Q. Please describe your work papers.
- A. Utility Solutions water system is fully metered. However, because we are assuming full occupancy in this rate filing it is necessary to project the annual water usage that will occur in its Elk Grove service area. Work paper 1 uses an equivalent domestic unit (EDU) method to determine the consumption in this service territory and for the various customer classes. The EDU assumes that the average residential customer uses 9,000 gallons per month for domestic household uses. EDU systems assign a percentage of use to other customer categories based on the 9,000 gallons per month domestic use equaling 1.0. The following

are example EDU assignments for various customer types:

Residential	1.0	Chalets	1.0		
Condo 1 bd	.6	Condo 2 bd	1.0	Hotel	.5/room
Dining Room	.06/seat	Coffee Shop	.06/seat	Lounge	03/seat

To determine EDU's for irrigation requirements within the Elk Grove service area it was necessary to assume an irrigated square footage per lot. The residential lots in the Elk Grove service area average 12,000 square feet, for purposes of calculating an irrigated area it was assumed that 7,000 square feet of each lot would be irrigated. The commercial area of Elk Grove consists of 18 acres it was assumed that of this 18 acres 3 acres would be irrigated. Irrigation consumption was calculated using the stated areas assumed to be irrigated and an assumed 24 inches of sprinkling water for the irrigation season. Once the irrigation volume was determined it was divide 9,000 gallons to determine EDU's.

Q. Does this conclude your direct testimony?

A. Yes.

	A	B	C	D
1	Rate Base Calculation			
2			Exhibit RRW-1	Page 1 of 2
3				
4	<u>Description</u>	<u>Amount</u>	<u>Reference</u>	
5				
6	Utility Plant	\$993,677	Sec. 38.5.123	
7	Working Cash	\$7,271	Sec. 38.5.141	
8				
9	Subtotal	<u>\$1,000,948</u>		
10				
11	Less:			
12	Reserve for Depreciation	\$42,907	Sec. 38.5.133	
13				
14	Total Rate Base	\$958,041		

	A	B	C	D
1	Exhibit RRW-1		Page 2 of 2	
2				
3	<u>Description</u>	<u>At Proposed</u> <u>Rates</u>	<u>Reference</u>	
4				
5	Operating Revenues	\$163,978	Sec. 38.5.156	
6				
7	<u>Operating Expenses</u>			
8	O & M Expenses	\$57,940	Sec. 38.5.156	
9				
10	Depreciation	\$46,933	Sec. 38.5.165	
11				
12	Taxes other than Income	\$1,619	Sec. 38.5.156	
13				
14	Income Taxes	\$0	Sec. 38.5.169	
15				
16	Total Deductions	\$106,492		
17				
18	Operating Income	<u>\$57,486</u>		
19				
20	Rate Base	\$958,041	Exh RRW-1	
21				
22	Return on Rate Base	6.000%	Sec. 38.5.146	

	A	B	C	D	E	F	G
1	38.5.123 Statement C - Utility Plant Accounts						
2							
3							
4		In Service	Balance 12/31/03	Balance 12/31/04			
5	Description	Date	Per Books	Per Books			
6	*Site Setup and Preliminary Work	8/8/2003	\$55,710	\$55,710			
7	*Water Main	8/8/2003	\$176,778	\$176,778			
8	*16308 LF 8" C900 PVC Mat	8/8/2003	\$105,088	\$105,088			
9	*370 LF of 12" C900 PVC Mat	8/8/2003	\$5,282	\$5,282			
10	*404 LF of 6" C900 PVC HYD lead Mat	8/8/2003	\$1,704	\$1,704			
11	*8" Gate Valves Mat & Install	8/8/2003	\$56,151	\$56,151			
12	*6" Gate Valves Hydr Leads/Wells	8/8/2003	\$20,468	\$20,468			
13	*Fire Hydrants Mat & Install	8/8/2003	\$44,572	\$44,572			
14	*Blow off Hydrants Mat & Install	8/8/2003	\$5,292	\$5,292			
15	*Water Service Connect & curb	8/8/2003	\$45,900	\$45,900			
16	*1" HDPE Water Service line in place	8/8/2003	\$45,680	\$45,680			
17	*Water Service Connect & Curb Box 2"	8/8/2003	\$1,500	\$1,500			
18	*Air Vac Vault and Valve	8/8/2003	\$2,389	\$2,389			
19	*Excavate Tank Foundation	8/8/2003	\$275	\$275			
20	*Parts & Labor Install Tank Piping	8/8/2003	\$2,070	\$2,070			
21	*Pump House Building	8/8/2003	\$18,370	\$18,370			
22	*Pump House Plumbing, Mechanical & Electrical	8/8/2003	\$58,000	\$58,000			
23	*24 V Control Wire	8/8/2003	\$2,349	\$2,349			
24	*Move Pressure Tank	8/8/2003	\$329	\$329			
25	Miscellaneous Water Distribution Invoices	8/8/2003	\$164,645	\$164,645			
26	Fluidyne Engineering Invoices	8/8/2003	\$75,962	\$75,962			
27	Dick Anderson Construction Interest Charge	8/8/2003	\$945	\$945			
28	Land	8/8/2003	\$15,829	\$15,829			
29	Licenses and Permits	8/8/2003	\$86,870	\$86,870			
30	Office Equipment	11/15/2004		\$535			
31	Organizational Costs	8/8/2003		\$1,250			
32	Startup Costs	8/8/2003		\$1,252			
33							
34	Total Plant In Service		\$ 992,158	\$ 995,195			
35							
36	Average Plant In Service		\$ 993,677				
37	*Source Dick Anderson Construction Invoices						

	A	B	C	D	E	F	G
38							
39							
40							
41	38.5.123 Statement C - Utility Plant Accounts Page 2 of 2						
42	Water Utility Plant Allocation by Service Area						
43							
44	Description		Elk Grove 12/31/03				
45	Water Distribution		\$307,108				
46	Water System		\$582,351				
47	Land		\$15,829				
48	Licenses and Permits		\$86,870				
49							
50	Total Plant by Service Area						
51			\$992,158				
52							
53			Elk Grove 12/31/04				
54	Water Distribution		\$307,108				
55	Water System		\$582,351				
56	Land		\$15,829				
57	Licenses and Permits		\$86,870				
58	Office Equipment		\$535				
59	Organizational Costs		\$1,250				
60	Startup Costs		\$1,252				
61							
62	Total Plant by Service Area						
63			\$995,195				
64							
65	Average Elk Grove Plant in Service		\$993,677				

	A	B	C	D	E	F
1	38.5.133 Statement D - Accumulated Depreciation - Amortization					
2				Reserve Balance per Books 12/31/2003	Reserve Balance per Books 12/31/2004	Average 2004 per Books Reserve Balance
3		In Service Date	Depreciable Life			
4						
5	<u>Description</u>					
6	Water Distribution	8/8/2003	25	\$5,118	\$17,402	\$11,260
7	Water System	8/8/2003	25	\$9,706	\$33,000	\$21,353
8	Land	8/8/2003	25	\$0	\$0	\$0
9	Office Equipment	8/8/2003	7	\$51	\$51	\$26
10	Licenses and Permits	8/8/2003	15	\$4,668	\$15,870	\$10,269
11	Organizational Costs	8/8/2003	5			\$0
12	Start Up Costs	8/8/2003	5			\$0
13						
14	Average 2004 Depreciation Reserve Elk Grove					
						\$42,907

	A	B	C	D	E
1	38.5.141 Statement E - Working Cash				
2	Working Cash				
3					
4	Operation and Maintenance Exp		\$57,940		
5	Other Taxes		\$1,272		
6	Property Taxes		\$347		
7					
8	Total		\$59,559		
9			12.50%		
10	Gross Working Cash		\$7,445		
11					
12	Less Property Tax Payment Lag				
13	1st Half	347 x 7 mo./12	\$101		
14	2nd Half	347 x 5mo./12	\$72		
15	Total		\$173		
16					
17	Net Working Cash		\$7,271		

	A	B	C	D	E
1	38.5.146 Statement F -- Rate of Return				
2	Utility Solutions Capital Structure				
3					
4	<u>Description</u>	Amount	Ratio	Cost	Weighted Cost
5	Debt	\$5,514,428	100%	6.00%	<u>6.000%</u>
6					
7	Total	\$5,514,428	100.00%		6.000%

	A	C
1	38.5.156 Proforma Income Statement Page 1 of 1 - Statement G	
2		<u>Allocated Elk Grove</u>
3		
4	<u>Description</u>	
5		
6	Revenue	
7	Elk Grove	\$163,978
8		
9		
10	Total	\$163,978
11		
12	<u>Pumping-Water Treatment</u>	
13	Purchased Power	\$16,753
14	Chemicals	\$500
15	Miscellaneous Testing	\$3,000
16	Materials and Supplies	\$3,500
17		
18	Total	\$23,753
19		
20	<u>Customer Accounts & Service</u>	
21		
22	Management Contract	\$21,840
23	Office Expense	\$4,553
24	Legal Fees/Accounting	\$3,794
25	Insurance	\$4,000
26		
27	Total	\$34,187
28		
29	<u>Taxes Other than Income</u>	
30	Property Taxes	\$347
31	PSC Tax	\$492
32	MCC Tax	\$180
33	DEQ PWSP	\$600
34		
35	Total	\$1,619
36		
37	Depreciation	\$46,933
38		
39	State Income Taxes	\$0
40	Federal Income Tax	\$0
41		
42		\$0
43		
44	Total Expenses	\$106,492
45		
46	Net Operating Income	Utility Sales \$57,485

	A	B	C	D	E	F
1	38.5.157 Work Papers - Adjustments to Operating and Maint. Expense Page 1 of 1 - Statement H					
2						
3			<u>Utility Solutions</u>	<u>Allocated Elk Grove</u>		
4	Adjustment No.		<u>Pro forma</u>			
5	1	Purchased Power	\$16,753	\$16,753		
6	2	Chemicals	\$500	\$500		
7	3	Miscellaneous Testing	\$3,000	\$3,000		
8	4	Materials and Supplies	\$3,500	\$3,500		
9	5	Management Contract	\$312,000	\$21,840		
10	6	Office Expense	\$24,000	\$4,553		
11	7	Legal Fees/Accounting	\$20,000	\$3,794		
12	8	Insurance	\$28,000	\$4,000		
13						
14		Total Adjustments	\$407,753	\$57,940		
15						
16						
17						
18	No. 1	<u>Purchased Power</u>				
19		This adjustment shows Utility Solutions calculated purchased power expense at present rates assessed by its service provider.				
20		Utility Solutions has calculated that, at full build out in its service territory, it will incur total purchased power expense for				
21		the water utility of \$16,753. Utility Solutions determined an average monthly purchased power cost of \$4.00 per unit.				
22		Utility Solutions then multiplied the average monthly power cost of \$4.00 times 349 equivalent users in the Elk Grove service				
23		area, to determine a cost of \$16,753.				
24						
25	No. 2	<u>Chemicals</u>				
26		This adjustment reflects a projected operating cost of \$500 for water utility chemicals. This projection is predicated on an				
27		assumed maintenance schedule that will require the use of chemicals to disinfect the system after maintenance				
28						
29	No. 3	<u>Miscellaneous Testing</u>				
30		Utility Solutions has projected an operating costs of \$3,000 for miscellaneous testing requirements imposed on the water utility.				
31		Utility Solutions will be required by the Montana Department of Environmental Quality, the EPA and various other Agencies to				
32		run water quality tests on its system.				
33						
34	No. 4	<u>Materials and Supplies</u>				
35		Utility Solutions projects a total water system cost of \$3,500 for material and supplies associated with repair and maintenance				
36		of the facilities at full build out. This expense projection is predicated on Utility Solutions review of its maintenance requirements.				
37						
38	No. 5	<u>Management Contract</u>				
39		Utility Solutions will be entering into a Management Services Agreement with Doubletree Inc. at a total cost of \$312,000 annually.				
40		The Management Services Agreement with Doubletree Inc. will cover management services for Utility Solutions' water and wastewater				
41		utilities. Utility Solutions has calculated that \$21,840 of this contract amount should be assigned to its Elk Grove water utility operations				
42		an amount equal to 7 percent of the total contract				
43						
44	No. 6	<u>Office Expense</u>				
45		Utility Solutions has calculated that, at full build out in its service territory, it will incur office expenses totaling				
46		\$24,000 for its utility operation. Utility Solutions has allocated \$4,553 of these expenses to its Elk Grove				
47		service area based on an EDU billing ratio. (\$24,000*.1897 = \$4,553)				
48						
49	No. 7	<u>Legal Fees/Accounting</u>				
50		Utility Solutions has projected that on an annual basis it will incur Legal and Accounting fees totaling \$20,000.				
51		Utility Solutions has allocated \$3,794 of these expenses to its Elk Grove service area based on an EDU billing ratio.				
52		(\$20,000*.1897 = \$3,794)				
53						
54	No. 8	<u>Insurance</u>				
55		Utility Solutions' projected insurance expense for its utility operations is \$28,000 annually. The Elk Grove water				
56		service area has been assigned \$4,000 of this cost.				

	A	B	C	D
1	38.5.165 Statement I Depreciation - Amortization Expense			
2	Depreciation Expense			
	<u>04 Adjusted</u>			
3	<u>Description</u>	<u>Deprec Expense</u>	<u>Pro forma</u>	
4				
5	Water Distribution	\$12,284	\$12,284	
6	Water System	\$23,294	\$23,294	
7	Land	\$0		
8	Office Equipment	\$25	\$153	
9	Licenses and Permits	\$11,202	\$11,202	
10	Organizational Costs	\$0	\$0	
11	Start Up Costs	\$0	\$0	
12				
13	Total Depreciation Expense	\$46,805	\$46,933	
14				
15				
16				
17				
18				
19				
20				
21				
22	Total Depreciation Expense	\$46,805.00	\$46,933.00	

38.5.172 Taxes Other than Income - Statement J

Line No.	Description	Proposed Rates
1	Property Taxes	\$347
2	a) PSC Tax	\$180
3	b) MCC Tax	\$492
4		\$1,019

Notes

a) <u>MCC tax Computed at 0.0011</u>					
Present Rates	0.0011	x	\$163,978.00	\$180	
Book Amount				<u>\$0</u>	
Adjustment				<u>\$180</u>	
b) <u>PSC Tax computed at 0.003</u>					
Present Rates	0.003	x	\$163,978.00	\$492	
Book Amount				<u>\$0</u>	
Adjustment				<u>\$492</u>	
	340.815				

Utility Solutions Allocated Cost of Service

	A	B	C	D	E	F
1	38.5.176. Statement L - Allocated Cost of Service					
2						
3	<u>Customer Description</u>	<u>Consumption</u>	<u>Number of</u>	<u>Service</u>		
4	Residential - Domestic	in Gals	<u>Billings</u>	<u>Connections</u>		
5	Residential - Irrigation	32,292,000	3588	299		
6	Daycare Lot	31,313,509				
7	Daycare Irrigation	216,000	12	1		
8	Commercial	104,727				
9	Commercial Irrigation	432,000	144	12		
10		1,955,112				
11	Total All	66,313,349	3744	312		
12						
13						
14						
15						
16	<u>Description</u>	<u>Consumption</u>	<u>Billing</u>	<u>Services</u>		
17	Residential - Domestic	<u>Proportion</u>	<u>Proportion</u>	<u>Proportion</u>		
18	Residential - Irrigation	48.70%	95.83%	95.83%		
19	Daycare Lot	47.22%	0.00%	0.00%		
20	Daycare Irrigation	0.33%	0.32%	0.32%		
21	Commercial	0.16%	0.00%	0.00%		
22	Commercial Irrigation	0.65%	3.85%	3.85%		
23		2.95%	0.00%	0.00%		
24	Total	100.00%	100.00%	100.00%		

	A	B	C	D	E	F	G	H	I	J	K
1	38.5.176 Statement L Allocated Cost of Service Page 2 of 2										
2	<u>Customer Class</u>	Customer Service	Pumping	Admin & General	Percent Variable Exp	Depreciation	Taxes Other than Income Return	Cost-of-Service	Flat Rate		
3	Residential - Domestic	\$12,347	\$23,753	\$21,840	\$57,940	\$46,933	\$1,619	\$57,486	\$163,978	\$34.97	per month
4	Residential - Irrigation	\$11,832	\$11,567	\$20,930	76.51%	\$35,908	\$1,239	\$43,982	\$125,459	\$1.5167	per 100 sq. feet
5	Daycare Lot	\$0	\$11,216	\$0	19.36%	\$9,086	\$313	\$11,128	\$31,744	\$44.09	per month
6	Daycare Irrigation	\$40	\$77	\$70	0.32%	\$151	\$5	\$185	\$529	\$1.5167	per 100 sq. feet
7	Commercial	\$0	\$38	\$0	0.06%	\$30	\$1	\$37	\$106	\$86.65	per month
8	Commercial Irrigation	\$475	\$155	\$840	2.54%	\$1,190	\$41	\$1,458	\$4,159	\$1.5167	per 100 sq. feet
9	Commercial Irrigation	\$0	\$700	\$0	1.21%	\$567	\$20	\$695	\$1,982	\$1.5167	per 100 sq. feet
10	Total	\$12,347	\$23,753	\$21,840	100.00%	\$46,933	\$1,619	\$57,486	\$163,979		
11											
12	Allocation Method	Billing	Consumption	Services Proportion	Percent Variable	Percent Variable	Percent Variable				
13											
14											

38.5.178 Derivation of Proposed Rates - Statement M

Residential/Small Commercial

Variable Costs

Pumping/Water Treatment Costs \$ 23,753

Fixed Cost

Customer Service \$ 12,347

Other Fixed Costs \$ 127,878

Total Cost \$ 163,978

Computation of Service Charge

Step 1

Allocated Customer Service in proportion to bills

\$ 12,347

Number of Annual Bills

3,744 = \$ 3.30 per month

Step 2

Allocate 1/3 of other costs , less Customer Service Costs to service charge with remaining 2/3 included in usage charge rate.

Total Other Costs \$ 127,878

0.3333

\$ 42,622

\$ 42,622

Number of Annual Bills

3,744 = \$ 11.38

Monthly Customer Charge Residential/Small Commercial \$ 14.68

Computation of Usage Charge

Total Other Cost	\$ 127,878
	<u>0.6667</u>
	\$ 85,256
Pumping Expense	\$ 23,753
Total Cost Recovered through Usage Charge	\$ 109,009
Total Cost Recovered through Usage Charge	\$ 109,009
Divided by Metered M gals	66,313
Usage Rate per 1,000 Gals	1.64385

	A	B	C	D	E	F	G	H	J
1					Work paper 1 Page 1 of 1				
2	Utility Solutions Annual Water Use Calculation								
3									
4	Customer Description	Annual Equivalent User Calculation	Number of Customers	Percent of Customers	Annual Gallons	Annual Consumption			
5	Residential - Domestic	3588	299	95.83%	32,292,000	48.70%			
6	Residential - Irrigation	3479			31,313,509	47.22%			
7	Daycare Lot	24	1	0.32%	216,000	0.33%			
8	Daycare Irrigation				104,727	0.16%			
9	Commercial	48	12	3.85%	432,000	0.65%			
10	Commercial Irrigation				1,955,112	2.95%			
11									
12	Total	7,139	312	100.00%	66,313,349	100.00%			
13									
14									
15									
16									
17									
18	Utility Solutions Monthly Water Use Calculation								
19									
20	January	Residential Domestic Consumption	Residential Irrigation	Daycare Domestic Consumption	Daycare Irrigation	Commercial Consumption	Commercial Irrigation	Total Monthly Usage Gals	
21	February	2,691,000		18,000		36,000		2,745,000	
22	March	2,691,000		18,000		36,000		2,745,000	
23	April	2,691,000		18,000		36,000		2,745,000	
24	May	2,691,000	3,131,351	18,000	10,473	36,000	195,511	6,082,335	
25	June	2,691,000	6,262,702	18,000	20,945	36,000	391,022	9,419,670	
26	July	2,691,000	9,394,053	18,000	31,418	36,000	586,534	12,757,005	
27	August	2,691,000	9,394,053	18,000	31,418	36,000	586,534	12,757,005	
28	September	2,691,000	3,131,351	18,000	10,473	36,000	195,511	6,082,335	
29	October	2,691,000		18,000		36,000		2,745,000	
30	November	2,691,000		18,000		36,000		2,745,000	
31	December	2,691,000		18,000		36,000		2,745,000	
32									
33	Total Gallons	32,292,000	31,313,509	216,000	104,727	432,000	1,955,112	66,313,349	
34	Total ccf	43,171	41,863	289	140	578	2,614	88,654	